

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 AGRE-00 CEA-01 CIAE-00 COME-00
DODE-00 EB-08 FRB-03 H-01 INR-07 INT-05 L-03
LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05 SS-15
STR-06 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 SOE-02
OMB-01 DOE-11 PM-05 /106 W
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R 270320Z JAN 78

FM AMEMBASSY SEOUL
TO SECSTATE WASHDC 8958
INFO AMEMBASSY TOKYO
AMCONSUL HONG KONG

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E.O. 11652: N/A

TAGS: ECON, EGEN, EALR, KS

SUBJECT: ROK UNVEILS 15 YEAR ECONOMIC OUTLOOK

1. DURING PRESIDENT PARK, CHUNG-HEE'S ANNUAL INSPECTION OF ECONOMIC PLANNING BOARD, THE LATTER PRESENTED AN OUTLINE OF THE KOREAN DEVELOPMENT INSTITUTE'S (KDI) FIFTEEN YEAR SOCIO-ECONOMIC DEVELOPMENT PLAN. WORK ON THE PLAN HAS BEEN UNDERWAY SINCE JULY 1976. ALTHOUGH PUBLICATION OF COMPLETE DOCUMENT HAS NOT BEEN COMPLETED, EMBASSY HAS OBTAINED OUTLINE OF BASIC SUMMARY PRESENTED AT INSPECTION BRIEFING.

2. PLAN CALLS FOR PER CAPITA GNP, IN CURRENT DOLLARS, OF \$7,731 IN 1981 (\$3,900 IN CONSTANT 1975 PRICES) WITH AGGREGATE GNP IN CURRENT PRICES REACHING \$350 BILLION. MERCHANDISE EXPORT WILL RISE TO \$114.6 BILLION WITH IMPORTS AT \$110 BILLION. KOREA IS EXPECTED TO BE A FULLY INDUSTRIALIZED POWER AND A "CAPITAL EXPORTER". THE ANNUAL AVERAGE EXPORT GROWTH RATE IS PROJECTED AT 20 PERCENT PER ANNUM WITH MANUFACTURED PRODUCTS ACCOUNT-

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ING FOR 99 PERCENT OF THE TOTAL. OF THESE HEAVY INDUSTRIAL PRODUCTS AND CHEMICALS WILL ACCOUNT FOR 74 PERCENT. IMPORTS OF CONSUMER GOODS WILL USE TO 38 PERCENT OF TOTAL IMPORTS.

3. PRINCIPAL EXPORTS BY 1991 WILL INCLUDE: ELECTRONICS (14.7 PERCENT); TEXTILES, CLOTHING AND FOOTWEAR (14.7

PERCENT); TRANSPORTATION EQUIPMENT (13.8 PERCENT); GENERAL MACHINERY (11.4 PERCENT); BASE METALS (11.4 PERCENT) AND SHIPS (4.2 PERCENT). ON THE IMPORT SIDE, THE PRINCIPAL ITEM WILL BE MACHINERY (27 PERCENT), PRIMARILY ELECTRICAL MACHINERY (16.3 PERCENT); FOLLOWED BY RAW MATERIALS (20 PERCENT) INCLUDING RAW COTTON, IRON ORE, AND LUMBER. MINERAL FUELS WILL COMPRISE 15.2 PERCENT OF IMPORTS LED BY CRUDE PETROLEUM (10.1 PERCENT) AND BITUMINOUS COAL (4.5 PERCENT). FOOD PRODUCTS AND AGRICULTURAL MATERIALS ARE PROJECTED AT 8 PERCENT OF TOTAL IMPORTS. URANIUM IMPORTS ARE FORECAST AT 0.6 PERCENT OF TOTAL BY 1991 AS NUCLEAR ENERGY BECOMES AN IMPORTANT SOURCE (15.6 OF TOTAL REQUIREMENTS).

4. ACCORDING TO THE KDI PROJECTIONS, THE CURRENT ACCOUNT ON THE BALANCE OF PAYMENTS WILL CONTINUE TO SHOW SURPLUSES FROM THE "TURNING POINT" YEAR OF 1977. THE TRADE BALANCE IS EXPECTED TO REMAIN IN DEFICIT

UNTIL 1983 BUT INVISIBLES WILL REMAIN POSITIVE AND GROW AS A RESULT OF TRAVEL RECEIPTS AND OVERSEAS CONSTRUCTION EARNINGS. IN CURRENT PRICES A SURPLUS OF ONE BILLION DOLLARS IS FORECAST FOR 1981, \$2.8 BILLION BY 1986, AND \$3.1 BILLION BY 1991. FOREIGN EXCHANGE HOLDINGS ARE PROJECTED AT \$13.6 BILLION BY THE END LIMITED OFFICIAL USE

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OF THE PERIOD.

5. TURNING TO THE DOMESTIC SCENE, REAL GNP IS PROJECTED TO INCREASE AT AN AVERAGE ANNUAL RATE OF 10.1 PERCENT UNTIL 1991 AND POPULATION GROWTH AT 1.55 PERCENT PER ANNUM TO 45.3 MILLION BY 1991. BY SECTOR AGRICULTURE IS PROJECTED TO GROW 3.2 PERCENT A YEAR, MINING AND MANUFACTURING 12.7 PERCENT, AND SOCIAL OVERHEAD CAPITAL AND SERVICES 10 PERCENT. BY 1991, AGRICULTURE WILL COMPRISE 8.1 PERCENT OF THE ECONOMY, MINING AND MANUFACTURING 44.4 PERCENT AND SERVICES AND SOCIAL OVERHEAD 47.5 PERCENT.

6. GOVERNMENT CONSUMPTION IS EXPECTED TO GROW AT 12 PERCENT A YEAR AND ITS SHARE OF GNP WILL INCREASE TO 14 PERCENT BY 1991. ON THE OTHER HAND, PRIVATE CONSUMPTION WILL GROW AT 8 PERCENT ANNUALLY AND ITS SHARE OF GNP WILL CONTINUE TO DECLINE TO 49.3 PERCENT. GROSS INVESTMENT WILL TAKE 34.6 PERCENT WITH NATIONAL SAVINGS AT 36.6 PERCENT OF GNP. BY THE EARLY 1980'S DOMESTIC SAVINGS ARE EXPECTED TO OVERTAKE DOMESTIC INVESTMENT NET OUTLAYS. (THE ABOVE ARE IN CONSTANT 1975 PRICES: IN

CURRENT PRICES THE RAIOS ARE CONSUMPTION 69.7 PERCENT, INVESTMENT 29.3 PERCENT AND NATIONAL SAVINGS 30.3 PERCENT OF GNP).

7. INVESTMENT OUTLAYS WILL BE CONCENTRATED IN SOCIAL OVERHEAD CAPITAL (33.5 PERCENT) AND MANUFACTURING (31.8 PERCENT) OF WHICH 19.6 PERCENT WILL BE DEVOTED TO HEAVY INDUSTRY AND 12.2 PERCENT TO LIGHT INDUSTRY. PRINCIPAL INDUSTRIES WILL INCLUDE AUTOMOBILES, ELECTRONICS, SHIPBUILDING AND BASE METALS AS WELL AS INDUSTRIAL MACHINERY.

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8. THE TOTAL TAX BURDEN IS EXPECTED TO REACH 25.4 PERCENT OF GNP BY 1991 COMPARED TO 17.3 PERCENT IN 1976. IN REAL TERMS THE GENERAL BUDGET IS PROJECTED TO GROW 12.4 PERCENT ANNUALLY DURING THE PERIOD WITH TAX REVENUES INCREASING BY 12.9 PERCENT.

9. THE OUTLOOK PROJECTIONS DO NOT NEGLECT SOCIAL WELFARE. IN FACT, IT IS REPORTED THAT THE PRESIDENT AT THE BRIEFING STRESSED THE NEED TO IMPROVE THE WORKERS' WELFARE, WORKING CONSTITUTIONS AND WAGES. ACCORDING TO THE PLAN, FULL EMPLOYMENT IS EXPECTED BY THE EARLY 1980'S WITH THE UNEMPLOYMENT RATE LESS THAN ONE PERCENT BY THE TARGET YEAR. DURING THE PERIOD 7.5 MILLION HOMES ARE TO BE BUILT AND ALL FAMILIES WILL HAVE THEIR HOMES AT THE END OF THE 15-YEAR PERIOD. COMPULSORY EDUCATION

WILL BE EXTENDED FOR THREE YEARS TO INCLUDE MIDDLE SCHOOL.(ONE INTERESTING, AND SOMEWHAT SURPRISING GOAL, IS FOR ONE AUTOMOBILE PER 17 PERSONS COMPARED TO ONE PER 300 IN 1976. THERE ARE GROWING INDICATIONS THAT KOREA IS GOING INTO THE AUTOMOTIVE INDUSTRY IN A BIG LIMITED OFFICIAL USE

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WAY OVER THE NEXT TWO DECADES.)

10. COMMENT: ALTHOUGH WE DO NOT HAVE THE FULL TEXT OF THE KDI PLAN AND CANNOT COMMENT ON THE ASSUMPTIONS UNDERLYING THE PROJECTIONS, WE BELIEVE THE OVERALL GENERAL OUTLINE SHOULD BE TAKEN AS A CHART OF THE ECONOMIC SHORES TOWARD WHICH KOREA INTENDS TO NAVIGATE DURING THE COMING YEARS. SCOFFERS MAY CONSIDER SOME OF THE PROJECTIONS OVERLY OPTIMISTIC; NEVERTHELESS, 15 YEARS AGO WHAT ECONOMIST WOULD HAVE, WITH ANY CONFIDENCE, PROJECTED THE ROK WITH \$10 BILLION IN EXPORTS AND A GNP OF \$31.5 BILLION IN 1977? (SUCH AN INDIVIDUAL WOULD PROBABLY HAVE BEEN SENT BACK TO HIS ECON 1 COURSE OR CONSIDERED HOPELESS.) THERE WILL UNDOUBTEDLY BE CHANGES AND SHIFTS OF EMPHASIS OVER THE COMING YEARS-- EPB IS CONSIDERING A RETURN TO A CURRENT ACCOUNT DEFICIT OVER THE NEXT SEVERAL YEARS BY THE RAPID EXPANSION OF IMPORTS--; AND THERE ARE MANY REEFS AND SHALS ON THE HORIZON (PROTECTIONISM, INTERNATIONAL MONETARY PROBLEMS, INCREASED DEFENSE BURDENS, AND RANDOM EVENTS WHICH CANNOT BE FACTORED IN).

11. PERHAPS ONE OF THE MOST STRIKING GOALS TO THE CASUAL OBSERVOR IS THE \$115 BILLION EXPORT PROJECTION TO 1991. THIS APPEARS TO BE BASED ON A PROJECTED REAL GROWTH IN EXPORTS OF 14.6 PERCENT PER ANNUM OVER THE 15-YEAR PEIROD, NOT AN OVERLY OPTIMISTIC ASSUMPTION. IN 1975 PRICES EXPORTS IN 1991 ARE FORECAST AT \$54.3 BILLION. THE KDI PLANNERS HAVE FACTORED IN A 7 PERCENT EXPORT PRICE RISE PER ANNUM UNTIL 1981 AND A 4 PERCENT INCREASE A YEAR THEREAFTER. THIS IS PROBABLY ONE OF THE AREAS WHERE ANY COMPUTER'S ASSUMPTIONS IS A GOOD AS ANOTHERS. FOCUS SHOULD BE ON THE "REAL" GROWTH LIMITED OFFICIAL USE

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PROJECTIONS WITH THE REALIZATION THAT KOREA, AS A PRICE TAKER, WILL BE SUBJECT TO THE VAGERIES OF INTERNATIONAL PRICE MOVEMENTS OVER THE PLAN PERIOD.

12. IN CONCLUSIONS, WE BELIEVE THE 15-YEAR PLAN SHOULD
BE STUDIED FOR ITS OBJECTIVES RATHER THAN AS A PROPHECY.
ESPECIALLY INTERESTING ARE THE INDUSTRIAL AREAS TO BE
EMPHASIZED, THE EXPORT "TARGETS", AND THE GENERAL
OBJECTIVES OF THIS ECONOMY OVER THE NEXT 15 YEARS.
(SELECTED TABLES, WHEN AVAILABLE, WILL BE FORWARDED BY
AIRGRAM).
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